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Preamble

1. Introduction

1. Georgia has been developing various environmental and climate-related policies in the recent years, and committed to reviewing and updating existing environmental policies in the context of the Paris Agreement as well as the 2030 Agenda for Sustainable Development and the Sustainable Development Goals (SDGs) (OECD, 2018[1]). Those commitments are supposed to greatly affect how climate and environmental policies in Georgia will be further developed, and to what extent such changes to the policy environments can incentivise Georgian businesses and households to direct financing to activities that contribute to green and inclusive economy growth.

2. Financial stability is a condition where the financial system ensures long-term, sustainable economic development in Georgia. The country has one of the most efficient and stable banking sectors in the Eastern Europe, the Caucasus and Central Asia region, while Georgia’s capital market is rapidly growing but still at an early stage of development (Giucci et al., 2018[2]). Georgia has introduced effective measures to support lending over the past decade through the relevant collateral and bankruptcy laws, as well as the wide coverage, scope and accessibility of credit information available through credit reporting service providers (World Bank, 2018[3]).

3. A key message from previous analyses of sustainable finance in Georgia is that the country’s financial system needs to be made conducive to mobilising finance for action towards sustainable development of the country, including climate change mitigation and adaptation. Mobilisation of such finance, on the other hand, also requires strong and stable policies to provide rationales for green and inclusive growth of the country (NBG, 2019[4]) (OECD, 2018[1]). The National Bank of Georgia (NBG) therefore has started to integrate environmental and social aspects into its banking supervision and the ongoing capital market reform in the country (OECD, 2018[1]).

4. The ESG Reporting and Disclosure Principles have been prepared in order to assist commercial banks and other financial institutions to disclose Environmental, Social and Governance (ESG) related information in a relevant, useful, consistent and comparable manner. The principles provide non-binding guidelines and do not create additional legal obligations. The document is accompanied by a corresponding template. The ESG Reporting and Disclosure Principles by the National Bank of Georgia (the Principles) have been developed within the scope of the Roadmap for Sustainable Finance in Georgia. The principles should also be read in conjunction with a Regulation on Disclosure requirements for commercial banks within Pillar 3, adopted on July 22, 2017 (the Pillar 3 Regulation) and the Corporate Governance Code for Commercial Banks (the CG Code).
2. On-going work by the National Bank of Georgia

5. The NBG, as the central bank of the country, is committed to promoting the agenda on the role of the financial sector in supporting sustainable development of the country. Among its various initiatives, the NBG issued the Roadmap for Sustainable Finance in Georgia in April 2019 (NBG, 2019[4]). The ultimate goal of the Roadmap is to provide a credible, predictable and stable regulatory framework and prepare the market for transitioning to sustainable finance. In the Roadmap, NBG commits to supporting the financial sector with strengthening its role in sustainable development of the country and for this purpose develops a framework for green, social and sustainable finance. The Roadmap also makes it clear that the banks and other financial institutions have responsibility for addressing the environmental and social issues in the country through their lending and other financial operations.

6. Through their financial activities, Georgian banks and financial institutions may increasingly be exposed to risks and opportunities arising due to policy changes towards the country’s greener and more inclusive growth, as well as physical risks caused by a changing climate and environmental degradation. Environmental, Social and Governance (ESG) related risks and opportunities may affect Georgian banks’ and non-bank financial institutions’ lending and other financial intermediary activities as well as through their own operations. As financial intermediaries, banks may assume exposure to ESG-risks through their borrowers, customers, or counterparties. Examples include banks’ provision of loans to, or underwriting and trading of securities of, companies with direct exposure to climate-related risks, (e.g. intensive fossil fuel consumers, property owners, or agricultural/food companies). Banks could also become subject to litigation related to their financing activities via those seeking damages or other legal recourse.

7. The NBG Roadmap for Sustainable Finance consists of four main pillars: (i) increasing awareness and capacity building; (ii) sustainable finance flows; (iii) ESG risk management; and (iv) transparency and market discipline. Among them, the pillars on ESG risk management (iii) and on transparency and market discipline (iv) directly relate to the main focus of this document on ESG disclosure for the financial sector in Georgia. (NBG, 2019[4])

8. Moreover, the recently adopted NBG’s Corporate Governance Code explicitly refers to issues concerning disclosure of information related to ESG. It requires banks and other financial institutions to disclose information on their activities as well as corporate governance issues, including on compliance with ESG standards. (NBG, 2018[5])

9. In the light of those backgrounds, the NBG in co-operation with the Organisation for Economic Co-operation and Development (OECD) embarked on the development of the NBG Principles on Environmental, Social and Governance Disclosure (NBG ESG Principles). The NBG also benefited from its co-operation with the International Finance Corporation (IFC) and the Sustainable Banking

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1 For more information regarding NBG’s sustainable finance framework please visit [https://sustainabledevelopment.un.org/memberstates/georgia](https://sustainabledevelopment.un.org/memberstates/georgia)
Network (SBN\textsuperscript{2}) to which the NBG is a member. In addition, the NBG has conducted multiple consultations and peer reviews with different stakeholders while drafting the NBG ESG Principles. This work aimed to develop a policy tool for driving markets towards more environmentally and socially friendly behaviour.

10. The NBG ESG Principles build on both relevant international practices and the existing initiatives by Georgian commercial banks and non-bank financial institutions in the field of ESG banking and disclosure on related information. This way NBG sought to ensure the relevance, usefulness, consistency and comparability of ESG information while keeping this approach suitable to specific circumstances in the Georgia’s financial sector. The NBG shall continue to monitor future developments in this field so that the NBG may update or revise the Principles as relevant.

\textsuperscript{2} “SBN is a voluntary community of central banks, banking regulators and associations from 35 development countries with a shared objective to transform the financial market toward sustainability”, and is coordinated by the IFC. For more information please visit www.ifc.org/sbn
NBG Principles on Environmental, Social and Governance Reporting and Disclosure

3. Purpose

11. The Principles of the National Bank of Georgia on disclosure of environmental, social and governance (ESG) information (henceforth, the NBG ESG Principles) aim to help Georgian commercial banks and other financial institutions to structure and facilitate the process of disclosing relevant, useful, consistent and more comparable information on ESG issues that are relevant to their businesses. Such enhanced disclosure on ESG also aims to help Georgia’s financial sector promote ESG risk management and improve transparency and market discipline as outlined in the NBG Roadmap for Sustainable Finance in Georgia (NBG, 2019[4]).

12. The NBG ESG Principles attempt to address not only financial risks to Georgian financial institutions’ businesses, but also risks to the environment and society in Georgia. The NBG ESG Principles aim to strengthen the resilience and stability of Georgia’s financial sector, enhance financial inclusion and the welfare of the citizens of Georgia. Yet, the Principles also intend not to compromise appropriate measures to address existing and potential adverse impacts on people, the environment and society, which banks and other financial institutions may cause or contribute to.

13. The NBG ESG Principles complement the NBG Corporate Governance Code3 in the light of its Article 3, which states that environmental, social and governance factors are an essential part of a bank’s sustainable development, thus should be integrated into its long term strategic development plan (NBG, 2018[5]). The Code also appreciates the importance of environmental and social issues as a key element of risk management by commercial banks.

14. The Corporate Governance Code requests the board of each bank to integrate environmental and social risks into the risk management framework based on the best international practice, and ensure that the board members have sufficient knowledge of the ESG matters, and monitor and verify the identification and assessment of ESG risks. (Article 17 of (NBG, 2018[5])) The NBG ESG Principles also aim to complement Article 7 (c) Non-financial reporting of the Law of Georgia on Accounting, Reporting and Audit administered by the Service for Accounting, Reporting and Auditing Supervision (SARAS) (Government of Georgia, 2016[6]).

15. The NBG ESG Disclosure Principles are non-binding, and a reporting entity may choose alternative approaches to its ESG disclosure, provided that they meet legal requirement under the NBG Corporate Governance Code, the Law on Accounting, Reporting and Audit, and any other relevant legislative frameworks applied in Georgia. However, the NBG strongly encourages financial institutions to follow the provided principles for ensuring consistent and comparable ESG disclosure.

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3 Decree №215/04 of the Governor of the National Bank of Georgia (26 September, 2018)
4. Scope of ESG Issues

16. ESG disclosure in Georgia shall consider all three elements: Environmental, Social and Governance, provided that they are deemed material to the reporting entity’s businesses and stakeholders (See the section on Materiality for further details). More specific ESG issues covered may include but are not limited to: human rights; employment and industrial relations; protection of the environment (including climate change); combating bribery, bribe solicitation and extortion; consumer interests and disclosure.

17. Entities that report on ESG issues relating to their own businesses and stakeholders should take into account, among others, the directions in which the Government of Georgia plans to develop its policy frameworks for sustainable development. For instance, the Government of Georgia has produced the preliminary version of the nationalised Sustainable Development Goals, which specifies areas in all the 17 SDGs and 99 targets (out of 169 SDG targets). Further details of the nationalised goals, targets and indicators shall be found on the Georgia’s profile on dedicated website of the Division for Sustainable Development Goals (DSDG) in the United Nations Department of Economic and Social Affairs (UNDESA).

18. The Government of Georgia has also internationally communicated the country’s Nationally Determined Contribution (NDC) to global effort for climate change mitigation and adaptation. The NDC may be a reference for reporting entities to take into account how the government plans to move the climate change policies forward. The NDC is meant to be regularly updated, and available on the dedicated website of the UN Framework Convention on Climate Change (UNFCCC) (UNFCCC, n.d.[8]).

5. Reporting Entities

19. In accordance with the Corporate Governance Code, all commercial banks that operate in Georgia shall disclose material ESG information. The term “commercial banks” is used here to mean “commercial banks, and branches and subsidiaries of foreign banks’ operation in Georgia” as defined in the Corporate Governance Code. (NBG, 2018[5])

20. The NBG ESG Principles also encourage other types of financial institutions, or non-financial sector entities, to disclose ESG-related information and to use the Principles for their reference. These financial institutions include, for instance, microfinance organisations, institutional investors and credit unions, and enterprises whose securities are admitted to trading on the stock exchange.

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4 However, NBG ESG Principles do not cover the disclosure of corporate governance practices covered in the CG Code and Pillar 3 Regulation.

5 https://idfi.ge/en/global_agenda_for_sustainable_development_and_georgian_path_from_2015
6. Medium of ESG Disclosure

21. A financial-sector entity that reports ESG-related information (henceforth, an “entity”) shall disclose ESG information through the latest version of the common reporting format that is available on the website of the National Bank of Georgia. Once filled in, the reporting format should be attached as an annex to a Pillar 3 annual report by the reporting entity when applicable. If a reporting entity is not subject to Pillar 3 requirements, an entity can directly submit the filled out template to the NBG. All the filled out templates will be published on the NBG’s website. An entity should provide a report on ESG-related information at least once a year.

22. The Principles provide an ESG reporting guidance for Georgian entities that builds upon globally accepted frameworks, which entities use to report on sustainability and non-financial information - EU guidelines for disclosure of non-financial information, the Global Reporting Initiative’s (GRI) Sustainability Reporting Standards, the International Integrated Reporting Council’s (IIRC) Integrated Reporting (IR) Framework, the Sustainability Accounting Standards Board (SASB), Task Force for Climate Financial Disclosure (TCFD), IFC Disclosure and Transparency Toolkit. These standards and frameworks can complement each other and can be used in a single document/annual report.

7. Materiality

23. An entity shall disclose information that is material to its businesses and stakeholders, and assess materiality in a context. For instance, a bank may consider that its own water consumption in offices and branches is not a material issue to be included in its report, while the bank may consider the social and environmental impacts of projects that it funds to be material. (EC, 2017[9]) While many issues around environment, social and governance risks and opportunities may be similar within the financial sector in Georgia, others may also differ from one entity to another.

24. An entity should also disclose the “materiality assessment process” (methodology, analyses, sources, etc.). For guidance on materiality assessment for sustainability issues providing common ground among different initiatives and including both financial and sustainability materiality one can refer to the IFC’s Disclosure and Transparency Toolkit (IFC, 2018 [17]; Annex A, p. 129).

25. The NBG EGS Principles adopt a “double materiality” perspective: materiality related to financial risks, and that relating to broader environmental and social risks, as outlined below.

   (i) Financial materiality: The reference to the entity’s “development, performance and position” indicates financial materiality. ESG-related information should be reported if it is necessary for an understanding of the development, performance and position of the entity.

   (ii) Environmental and social materiality: The reference to “risks and impacts of an entity’s activities” indicates environmental and social materiality. ESG-related information should be reported if it is necessary for an
understanding of the external impacts of the entity. This perspective is
typical of most interest to citizens, consumers, employees, communities
and civil society organisations.

26. For financial materiality, the NBG ESG Principles define “material information”
in accordance with Article 2(16) of the EU Accounting Directive (2013/34/EU).
In the Directive, material information means “the status of information where its
omission or misstatement could reasonably be expected to influence decisions that
users make on the basis of the financial statements of the undertaking.

27. For the materiality relating to broader environmental and social risks, materiality
of information should also be judged on the basis of broader considerations than
financial materiality. These include negative impact of its businesses, including
lending as well as underwriting and trading of securities, on the environment and
society.

28. In this regard, an entity should consider if a particular ESG issue is material from
either of these two perspectives – financial materiality or social and environmental
materiality. These two risk perspectives are likely to overlap. For instance, as
markets and public policies evolve in response to climate change, the positive or
negative impacts of an entity on the climate will increasingly translate into its
business opportunities and risks which are financially material as well. (OECD,
forthcoming). Thus, the ESG information is material to the business and needs to
be disclosed as long as it meets either the financial materiality or the environmental
and social materiality.

29. An entity should take account of various factors that may affect financial and/or
environmental and social materiality. When assessing ESG risks and
opportunities, an entity should consider a long-term time horizon so that the entity
does not prematurely conclude that ESG risk and opportunities are not material
since they are perceived to be long-term in nature. This is in line with the NBG
Corporate Governance Code that requires banks to integrate ESG considerations
into their long-term strategic development plans.

30. An entity may refer to the following list that shows some examples of such factors
outlined in the EU guidelines on non-financial reporting (EC, 2017[9]). For further
details, an entity may also refer to relevant tools such as “Disclose What Truly
Matters: Model disclosures under the non-financial and diversity information
directive” which is also referred to by SARAS (Accountancy Europe, 2016[10]).

- **Business model, strategy and principal risks**: An entity’s goals, strategies,
management approach and systems, values, tangible and intangible assets,
value chain and principal risks are relevant considerations.

- **Main sectoral issues**: Similar issues are likely to be material to companies
operating in the same sector, or sharing supply chains. Topics are
therefore likely to be relevant for an entity, if its competitors or suppliers
have already identified them as material risks.

- **Interests and expectations of relevant stakeholders**: An entity is expected
to engage with relevant stakeholders and seek a good understanding of
their interests and concerns.
• **Impact of the activities**: An entity is expected to consider the actual and potential severity and frequency of impacts. This includes impacts of their products, services, and their business relationships (including supply chain aspects).

• **Stakeholder engagement**: An entity is expected to describe the stakeholder engagement activities: (1) who are stakeholders, (2) the stakeholder engagement processes, (3) topics discussed with the relevant stakeholders.

• **Public policy and regulatory drivers**: Public policies and regulation may have an effect on the specific circumstances of a company and may influence materiality.

### 8. Key Considerations

31. An entity shall, as appropriate, disclose ESG-related information in the light of the key considerations listed below. The entity may use the European Commission’s Guidelines on non-financial reporting as a reference for the key considerations for non-financial reporting. Building on those, below show some considerations in line with the NBG ESG Principles and the Georgia-specific context with the aim to support Georgian financial institutions in preparing for ESG disclosure. Further details and guidance can also be found in Section 3 ‘Key Principles’ of the guideline (EC, 2017[9]).

• **Material information to be disclosed**: As outlined in the previous section, an entity shall disclose material information on ESG. This means that in its report, an entity shall include ESG information to the extent necessary for an understanding of the undertaking’s development, performance, and position as well as the impact of its activity on the environment and society.

• **Fair consideration to favourable and unfavourable aspects**: An entity should assess and report ESG information in an unbiased way. For this, all available and reliable inputs should be assessed, taking into account the information needs of its relevant stakeholders. The entity should avoid misstating or omitting material information, or misleading users of information. Facts should be clearly distinguished from views or interpretations.

• **Comprehensive but concise**: An entity should provide a comprehensive picture of the material information related to ESG in the reporting year. This refers to the breadth of information disclosed. However, the depth of individual information reported on any particular issue depends on its materiality. To make a report concise, the entity may summarise material ESG information, while avoiding generic information and excessive details.

• **Strategic and forward-looking**: An entity should disclose relevant ESG information on its business model, strategy, objectives and implementation, including short-, medium- and long-term implications of the information disclosed. Such information in turn should provide insight into the strategic approach to relevant non-financial issues in terms of
what an entity does, and how and why it does so. The entity may also disclose how it approaches a sustainable business strategy and how environmental, social and governance performance can help achieve its business goals.

- **Stakeholder-oriented**: An entity should consider the information needs of its relevant stakeholders (as a collective group, rather than on the needs of individual or atypical stakeholders). Those stakeholders may include: shareholders, clients (e.g. borrowers), other financial institutions (both international and domestic), public authorities and financial regulators, local communities, vulnerable groups, social partners and civil society.

- **Consistent and coherent**: An entity should make clear links between the disclosed ESG information and other information disclosed in its financial fillings required by the NBG. The content of the non-financial report that may include ESG information should be consistent over time to help stakeholders understand and compare past and present changes in the entity’s development, position, performance and impact, and relate reliably to forward-looking information.

- **Personalized and distinctive**: An entity could consider including a clear and distinctive narrative about the past, present, and perhaps future “ESG direction” of the company. For instance, an ESG message/statement from the CEO or any other executive can be an effective means for feeding interest and excitement in ESG topics. Ideally, the disclosed ESG-related information is presented in such a way that it builds relationships and encourages stakeholder engagement. For instance, a company could consider multiple platforms (annual report, IR-website, IR-app, etc.) to disclose the ESG-related information. In addition, it is recommended to use figures, graphs, and tables to make the information more accessible and less legalistic.

### 9. Structure of Disclosure

32. In terms of the structure of reporting, an entity should communicate ESG-related information in accordance with the following elements, which are reflected in the common reporting format: (a) business model, (b) policies and due diligence, (c) outcomes, (d) principle risks and management, and (e) key performance indicators. The structure below is informed by the European Commission’s Guidelines on Non-Financial Reporting (EC(2017) 4234 final) (EC, 2017[9]) and in line with the objectives of the NBG Corporate Governance Code.

#### a. Business Model

33. An entity shall disclose information on how ESG-related issues might affect its business model and strategy, and how its activities might affect the environment and society, where such information is material. Such information should, as appropriate, be disclosed on different time scales (i.e. over the short-, medium- and long-term). In so doing, the entity may, as referred to in (EC, 2017[9]), consider disclosing the following types of information:
34. An entity may consider disclosing ESG-related information regarding the business model listed in, but not limited to, the table 1 below.

<table>
<thead>
<tr>
<th>Table 1 - Disclosure on Business Model</th>
</tr>
</thead>
<tbody>
<tr>
<td>Describe the impact of ESG risks and opportunities of the investment and lending portfolios on the entity’s business model, strategy and financial planning.</td>
</tr>
<tr>
<td>Describe whether and how the entity considers that its counterparties take ESG risks and opportunities into account.</td>
</tr>
<tr>
<td>Describe how the entity incorporates the assessment of ESG risks and opportunities into relevant investment and lending strategies and how the transition to a lower-carbon economy might affect each strategy.</td>
</tr>
<tr>
<td>Describe the ways in which the entity’s business model can affect the environment and society both positively and negatively.</td>
</tr>
<tr>
<td>Describe opportunities related to resource efficiency and cost savings, the adoption of low-emission/polluting energy sources, the development of new products and services, access to new markets, and building resilience along the value chain.</td>
</tr>
</tbody>
</table>

**b. Policies and Due Diligence Processes**

35. Governance and control systems are key for stakeholders to have a good understanding about the entity’s approach to ESG issues. The information regarding the entity’s ESG policies and any associated targets are beneficial for stakeholders to understand the entity’s ability to manage its business to minimise ESG risks, limit negative impacts on environment and society and assess opportunities. This section provides guidance on ESG disclosure with regard to an entity’s policies and due diligence processes.

**Policies**

36. An entity shall disclose an overview of its policies on ESG-related issues, describing its commitment towards those issues and its due diligence processes. The entity should also specify where further information on such policies is available.

37. An entity should also disclose information on the governance of its policies, strategy and management processes with regard to ESG risks and opportunities. For this purpose, the entity should describe the role of its executive officer(s), board committee or highest governing body in meeting objectives for
environmental and social risks and opportunities, and implementing necessary actions.

38. An entity should, as appropriate, disclose the oversight by its executive officer(s), board committee or highest governing body of ESG governance with regard to, for instance, the following aspects. (See also (TCFD, 2017[13]) for further information)

- Does the executive officer(s), board committees or highest governing body have the skills and expertise to assess ESG-related issues?
- How the executive officer(s), board committees or highest governing body are informed about ESG-related issues, including stakeholder engagement process (e.g. process and frequency);
- When the executive officer(s), board committees or highest governing body review and guide the entity’s strategy, major plans of action, stakeholder engagement policy, risk management policies, annual budgets, and business plans as well as setting the entity’s performance objectives, and
- How the executive officer(s), board committee or highest governing body monitors and oversees progress against the entity’s goals and targets with regard to ESG-related risks and opportunities;
- Whether the entity has assigned ESG-related responsibilities to management-level positions or committees;
- If so, whether such management positions or committees report to the executive officer(s), board committees or highest governing body. How the implementation is monitored (is it linked to relevant performance KPIs).

39. The entity should also disclose information on its approach to incorporating ESG aspects into practices. Such information may be related, but not limited, to parties responsible for day-to-day incorporation of ESG factors, the roles and responsibilities of business units involved, and the formal oversight of individuals and bodies involved. (See also (SASB, 2014[12]). Business units referred to here may include:

- Those making high-level decisions (e.g. boards and senior-level management);
- Those in charge of risk or compliance (e.g. legal, compliance, due diligence officers, credit officers, risk units, finance department, environmental and social risk units);
- Those developing and managing client relationships (e.g. business development officers, client relationship managers);
- Those in charge of marketing the shares and bonds that the bank is underwriting (OECD forthcoming)

40. Disclosure of policies on ESG-related risks and opportunities may aim to articulate what the entity expects from its clients and staff in relation to ESG issues and to inform design of processes which impact ESG-related objectives. Policies on ESG also serve to inform the broader public of the entity’s position on ESG issues. An ESG policy may be a standalone document or integrated into other overarching
policies of the entity, such as a credit risk policy or a reputational risk management policy.

**Due Diligence**

41. An entity shall disclose its approach to due diligence in which the entity identifies, prevents, mitigates and accounts for how they address actual and potential adverse impacts in their own operations, their supply chain and other business relationships. If the entity applies particular standards or guidelines for its due diligence, it shall specify the application in its disclosure.

42. An entity should also clarify to which activities its risk management and mitigation approach applies. More specifically, the entity should disclose how it identifies, manages and mitigates ESG risks at least in the following types of activities as relevant to its business:

- Corporate lending and securities underwriting;
- Project-based and asset-based financing; and
- Any other financial or operational activities undertaken by the entity and considered material.

43. In describing its process of due diligence, an entity may refer to various international guidelines and standards. Examples include, but are not limited to, the following (in alphabetical order)⁶:

- Basel III
- EBRD Environmental and Social Risk Management Manual
- Equator Principles
- FMO Environmental, Social and Governance Toolkits
- IFC’s Performance Standards
- OECD Guidelines for Multinational Enterprises on Responsible Business Conduct (MNE Guidelines) ⁷
- OECD Due Diligence Guidance for Responsible Business Conduct
- United Nations Guiding Principles on Business and Human Rights
- World Bank’s Environmental and Social Framework

44. An entity should disclose ESG policies and information on measures taken to embed responsible business conduct into policies and management systems. The entity should also include its identified areas of significant risks as well as

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⁷ Due diligence under the MNE Guidelines is an on-going process (rather than criteria for project approval) and focuses on management of actual or potential adverse impacts on the environment and society including the labour and human rights of affected parties.
significant adverse impacts or risks identified, prioritised and assessed, and an
explanation of the prioritisation criteria.

45. An entity may also report on the actions taken to prevent or mitigate significant
adverse impacts or risks, including where possible, estimated timelines and
benchmarks for improvement and their outcomes, measures to track
implementation and the results of tracking activities and the entity’s provision of
or co-operation in any remediation.

46. An entity may also disclose its due diligence processes specifically at the project-
level activities. In so doing, the entity may apply standards for due diligence on
environmental and social risks developed by development finance institutions,
such as the International Finance Corporation (IFC), the European Bank for
Reconstruction and Development (EBRD), the Netherlands Development Finance
Company (FMO) and the World Bank Group.

47. If the entity applies any of such standards to its project-level due diligence, it
should disclose information on ways in which it applies the standards, including,
but not limited to, the following aspects.

- Assessment to identify the environmental and social impacts, risks, and
opportunities of the project;
- Community engagement through disclosure of project-related information
and consultation; and
- Management of environmental and social performance throughout the life
of the project.

48. An entity may also apply industry- and issue-specific policies on ESG risk
management and due diligence. Examples of such industry-specific guidelines
include those for mining, agriculture, manufacturing, energy, and construction
sectors, among others. If the entity uses such industry- or issue-specific policies,
it should clearly specify what policies it uses and how.

49. An entity may consider disclosing information regarding ESG-related policies and
due diligence processes listed in, but not limited to, the table 2 below.

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8 A prominent example may be the IFC’s Performance Standards that are a widely recognised
tool and have already been used by many Georgian financial institutions. The IFC Performance
Standards were designed to provide its clients with guidance on how to identify risks and impacts,
and to help avoid, mitigate, and manage risks and impacts as a way of doing project-level
activities in a sustainable way. Such a way of risk management also includes stakeholder
engagement and disclosure obligations of the entity in relation to project-level activities. Further
information is available on the IFC’s dedicated website (IFC, 2012).

9 For instance, several due diligence guidance by sector is available under the OECD Guidelines
for Multinational Enterprises (minerals, extractive, garment and footwear, agriculture, investors
Network’s website also provides guidelines from its member countries, notably Mongolia that
adopted 4 sector-specific guidelines (mining, construction and infrastructure, manufacturing
c. Outcomes

50. An entity should provide a useful, fair and balanced view of the outcome of its ESG policy over time. Such information should aim to help the entity’s stakeholders understand and review the performance of its business model, strategies, policies and governance systems being implemented.

51. In its reporting, the entity should summarise its management’s conclusions about the effect of environmental and social impacts, risks, opportunities and policy outcomes on the entity’s future performance. Such conclusions may draw on the process used to identify, assess and manage the information disclosed in accordance with the NBG ESG Principles.

52. An entity may consider disclosing information about ESG-related policy outcomes listed in, but not limited to, the table 3 below. Indicators and other quantitative aspects that are needed to support the analysis are covered in Part 9e on Key Performance Indicators.

<table>
<thead>
<tr>
<th>Table 2 - Disclosure on Policies and Due Diligence Processes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Describe any entity policies related to ESG issues.</td>
</tr>
<tr>
<td>Describe any ESG-related targets the entity has set as part of its policies.</td>
</tr>
<tr>
<td>Describe the oversight by its executive officer(s), board committee or highest governing body of ESG governance.</td>
</tr>
<tr>
<td>Describe how the entity encourages better disclosure and practices related to ESG-related risks to improve data availability and any effort to increase the awareness of counterparties, and more generally of customers, of the relevance of ESG-related issues as part of their lending and investment processes.</td>
</tr>
<tr>
<td>Describe how ESG-related issues are considered as drivers of value in the entity’s investment decision process.</td>
</tr>
<tr>
<td>Describe the entity’s approach for incorporating ESG aspects into practices.</td>
</tr>
<tr>
<td>Describe the entity’s approach to due diligence (including project level) and any particular standards or guidelines the entity follows.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Table 3 - Disclosure on Outcomes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Describe the outcomes of the entity’s ESG policy, including the performance against the indicators used and targets set to manage ESG risks and opportunities.</td>
</tr>
<tr>
<td>Describe the development trend of the amount of ESG-related assets in the different portfolios against any relevant target set and the related risks over time.</td>
</tr>
</tbody>
</table>

d. Principle Risks and Management

53. An entity shall disclose information on its principal risks related to the environment, society and governance, and on how those risks are managed and mitigated. Those risks may relate to the entity’s financial operations, its products.
or services, its supply chain and business relationships, or to other aspects. An entity shall disclose material information on such ESG risks, regardless of whether they stem from its own decisions or actions, or from external factors. (EC, 2017[9])

54. An entity should describe its approaches, if any, to the incorporation of ESG factors in the analysis of traditional risk categories such as credit risk, market risk and operational risk. The entity may also describe how it incorporates ESG factors when estimating credit losses over the contractual term of the entity’s financial assets. (SASB, 2014[12])

55. An entity should describe significant concentrations, if any, of its credit exposure to ESG-related risks, including, but not limited to, carbon-related assets, operations in water-stressed regions, concerns for human rights, and cybersecurity risks. (SASB, 2014[12]; SASB, 2017[20]) If relevant, the entity should also describe how it assessed the exposure of financial assets, non-financial assets and assets under management to ESG-related risks. The entity may also categorise ESG-related risks into different types. On climate change, for instance, climate-related risks may be disaggregated into physical and transition risks as below (for more information, see (TCFD, 2017[13])).

- **Transition risks** arises from transitioning to a lower-carbon economy, which may entail extensive policy, legal, technology, and market changes in Georgia to address mitigation and adaptation requirements related to climate change.

- **Physical risks** results from climate change, which can be event driven (acute) or longer-term shifts (chronic) in climate patterns. Physical risks may have financial implications for entities such as direct damage to assets and indirect impacts from supply chain disruption (of their clients).

56. An entity should disclose whether it has a specific measure(s) to cease, prevent and mitigation adverse ESG-related impact, and if so, what these measures are. Such measure may include:

- Defining exclusionary criteria that prohibit the provision of a financial service to clients with particular ESG risks;

- Defining conditions for the provision of financial services to clients based on their adherence to well-established and recognised standards and/or good practice related to ESG issues (See also Section 9b on Due diligence);

- Adding ESG-related issues or expectations into contractual documents or other written statements/commitments with prospective clients (for example, requiring clients to put ESG-related management systems in place or meet specified international standards or conditioning disbursements on a verification of specified environmental and social conditions);

- Providing prospective clients with incentives to meet certain ESG-related targets (e.g. coupling the interest rate of the loan with the entity’s sustainability performance);
- Where relevant, requiring a deeper level of an environmental impact assessment and better disclosure of ESG risks in investor information disclosures (prospectus) for securities underwriting;

- Assigning relevant senior responsibility for ensuring that activities that cause or contribute to adverse impacts cease;

- Encouraging clients to create a roadmap on how they can cease the activities that are causing or contributing to adverse impacts, involving impacted or potentially impacted rights holders and other stakeholders as relevant;

- If need be, recommending the client to hire an external environmental and social consultant to support mitigation activities;

- Engaging with prospective and existing clients through face-to-face meetings with its representatives from operations, senior management, and/or board level to discuss on how their clients are approaching the key ESG matters relevant to their business and to request time-bound action to address or mitigate a particular impact;

- Collaborating with other banks involved in the transaction or other stakeholders to exert leverage on ESG matters, subject to legal obligations;

- Connecting clients with needed resources to address impacts and manage risk.

57. An entity should also disclose information related to collateral (including real estate collateral), for instance, the volume of the collateral highly exposed to ESG-related risks compared to the total amount of collateral.

58. An entity may consider disclosing information regarding ESG risks and management listed in, but not limited to, the table 4 below.

<table>
<thead>
<tr>
<th>Table 4 - Disclosure on Principal Risks and Management</th>
</tr>
</thead>
<tbody>
<tr>
<td>Describe the entity’s processes for identifying and assessing ESG risks over the short, medium, and long term and disclose how the entity defines short, medium, and long term.</td>
</tr>
<tr>
<td>Describe the principal ESG risks the entity has identified over the short, medium, and long term and any assumptions that have been made when identifying these risks.</td>
</tr>
<tr>
<td>Describe processes for managing ESG risks and how the entity is managing the particular ESG risks that it has identified.</td>
</tr>
<tr>
<td>Describe how processes for identifying, assessing, and managing ESG risks are integrated into the entity’s overall risk management.</td>
</tr>
<tr>
<td>Describe how the entity has assessed the exposure of financial assets and nonfinancial assets to ESG risks.</td>
</tr>
<tr>
<td>Describe characterisation of the entity’s ESG risks in the context of traditional industry risk categories such as credit risk, market risk and operational risk.</td>
</tr>
<tr>
<td>Describe volume of the collateral highly exposed to ESG risks.</td>
</tr>
</tbody>
</table>
e. Key Performance Indicators

59. An entity should disclose metrics and targets used to assess and manage relevant environmental, social and governance related risks and opportunities. Such metrics and targets can be expressed as indicator-based information, referred to as key performance indicators (KPIs). An entity should report KPIs that are useful taking into account its specific circumstances (EC, 2017[9]). KPIs may be expressed in quantitative and qualitative manners (EC, 2017[9]) (SASB, 2014[12]). An entity should report KPIs separately on environment, social and governance risks and opportunities.

60. An entity should use KPIs consistently from one reporting period to the next in order to provide reliable information on progress and trends. Nevertheless, the KPIs reported may evolve over time for business or technical reasons, and the entity may need to change some of the KPIs.

61. An entity may also provide an analysis of the reported information on KPIs, explaining for example why KPIs increased or decreased in the reporting year, and how KPIs might evolve in the future. (EC, 2017[9]) An entity may present KPIs in the context of targets, past performance, and comparison with other companies, as appropriate.

62. Table 5 below shows a non-exhaustive list of KPIs for ESG disclosure by commercial banks in Georgia. For more detailed KPIs please, see the template. This list was developed by reviewing several of the international standards and the already disclosed information by Georgian financial institutions.

<table>
<thead>
<tr>
<th>Table 5 - Disclosure on KPIs</th>
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</thead>
<tbody>
<tr>
<td><strong>Environmental</strong></td>
</tr>
<tr>
<td>Indicators for GHG emissions</td>
</tr>
<tr>
<td>Indicators for green loans/investments issuance</td>
</tr>
<tr>
<td>Indicators for ESG screening and ESG integration</td>
</tr>
<tr>
<td>Other environmental KPIs</td>
</tr>
<tr>
<td><strong>Social</strong></td>
</tr>
<tr>
<td>Indicators diversity in the workplace</td>
</tr>
<tr>
<td>Indicators for employees training &amp; education</td>
</tr>
<tr>
<td>Indicators for human rights</td>
</tr>
<tr>
<td>Indicators for customer protection and satisfaction</td>
</tr>
<tr>
<td>Other social KPIs</td>
</tr>
<tr>
<td><strong>Governance</strong></td>
</tr>
<tr>
<td>Indicators for anti-competitive behavior</td>
</tr>
<tr>
<td>Indicators for anti-corruption management</td>
</tr>
<tr>
<td>Other governance KPIs</td>
</tr>
<tr>
<td>Acronyms and Abbreviations</td>
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<tr>
<td>----------------------------</td>
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<tr>
<td><strong>CSR</strong></td>
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<tr>
<td><strong>EBRD</strong></td>
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<tr>
<td><strong>EC</strong></td>
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<td><strong>EP</strong></td>
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<td><strong>ESG</strong></td>
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<td><strong>EU</strong></td>
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<td><strong>FMO</strong></td>
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<td><strong>GRI</strong></td>
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<td><strong>IFC</strong></td>
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<tr>
<td><strong>KPI</strong></td>
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<tr>
<td><strong>MNE</strong></td>
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<tr>
<td><strong>NBG</strong></td>
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<tr>
<td><strong>OECD</strong></td>
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<tr>
<td><strong>SARAS</strong></td>
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<tr>
<td><strong>SASB</strong></td>
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<tr>
<td><strong>SBN</strong></td>
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<tr>
<td><strong>SDG</strong></td>
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<tr>
<td><strong>TCFD</strong></td>
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<td><strong>UN</strong></td>
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<td><strong>UNEP</strong></td>
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<td><strong>UNEP FI</strong></td>
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<tr>
<td><strong>UNFCCC</strong></td>
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References


